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The Director of Central Intelligence

Washington, D.C. 20505

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National Intelligence Council

NIC-03095-87/1
27 July 1987

MEMORANDUM FOR: Distribution

FROM:

Assistant National Intelligence Officer for Europe

SUBJECT: July Warning and Forecast Report

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1. Attached is my report to the DCI based on our warning meeting held on 22 July 1987.

2. Next month's warning meeting will be held on Wednesday, 19 August 1987 at 1025 in room 7-E-62, CIA Headquarters. Please telephone attendance plans to [redacted] and have clearances certified by NOON 18 August 1987.

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3. I also encourage you to phone in suggestions for the agenda and names of volunteers to make opening presentations. It would be helpful to have your comments for the next meeting by COB Monday, 10 August 1987.

Attachment

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CONFIDENTIAL when separated from attachment.

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Washington, D.C. 20505

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MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: [REDACTED]
Assistant National Intelligence Officer for Europe

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SUBJECT: July Warning and Forecast Report

I. WEST GERMANY: A NEW OSTPOLITIK?

1. Discussion. From Bonn's perspective, there is no new Ostpolitik but rather a growing effort to revive the old one. At least three new factors are evident, however: the increased influence of Foreign Minister Genscher since the January elections, diminished public perceptions of a threat from the USSR under Gorbachev, and post-Reykjavik arms discussions, which have pushed the West Germans to center stage over zero-zero INF and now the PIAs. Bonn remains ready for improved relations with the USSR; the litmus test is Moscow's willingness to sanction closer inter-German ties.

The official announcement of East German party leader Honecker's forthcoming visit to West Germany -- scheduled for early September -- is a dramatic new development. From the Soviet perspective, acquiescence to the visit, which has been held in abeyance since 1984, entails risks.

- It will give a tremendous boost to Honecker and perhaps strengthen his leverage in future dealings with Moscow.
- The Soviets like predictability; a Honecker visit to West Germany is inherently unpredictable.
- The "German Question" will be revived.

Gorbachev evidently concluded that these risks are offset by opportunities for exploiting uncertainties in Bonn and encouraging a gradual neutralist drift among large segments of West German society.

2. Warning Notice. The Soviets may see the Honecker visit as bait for West German concessions on arms issues, notably the PIAs; they may threaten cancellation of the visit if such concessions are not forthcoming. Indeed, Gorbachev probably dropped some none too subtle hints during the recent von Weizsaecker/Genscher visit to Moscow.

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II. FRANCO-GERMAN RELATIONS: A "EUROPEAN PILLAR"?

1. Discussion. There has been new movement toward Franco-German defense cooperation: the signing of a helicopter co-production agreement, negotiations toward a Franco-German brigade, and plans for joint exercises this fall at a site east of Munich -- farther forward than French troops have gone before. The French, worried about a possible erosion of the US security commitment and an eastward drift of West Germany, have strengthened their (verbal) commitment to the conventional defense of the FRG and offered to consult with Bonn on French nuclear doctrine.

Beyond some of the practical problems of strengthened cooperation -- the inefficiency of coproduction projects to date and the problem of creating a credible joint brigade outside NATO's integrated command -- are fundamental conceptual differences.

-- Some in Bonn hope to commit France more deeply to West German defense and in so doing to gain a nuclear guarantee as well -- which the French are not prepared to offer. Defense Minister Giraud already has warned that since no transnational force will operate without nuclear cover, the Franco-German brigade proposal may carry with it an implicit nuclear guarantee.

2. Warning Notice. West German conservatives previously resisted a strengthening of Franco-German defense cooperation for fear of weakening the US security commitment; their active encouragement of the idea now suggests that they no longer see a conflict in pursuing closer ties with both allies. It may also reflect a growing belief that the US commitment is eroding already and that the FRG must begin looking elsewhere for its security guarantee. Such a conviction, coupled with growing neutralist sentiment on the West German Left, could undermine the US-FRG relationship.

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III. REFORM DILEMMAS IN EASTERN EUROPE

A. HUNGARY: AUSTERITY AHEAD

1. Discussion. Severe financial problems, along with prodding from Moscow, have forced the Hungarian leadership to begin coming to grips with economic belt-tightening. Two recent Central Committee plenums -- one

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elevating Karoly Grosz, known as a tough-minded administrator, to the premiership and the other calling for new reform and austerity measures -- herald tough times for the population. Politburo member Janosz Berecz told our ambassador that living standards are expected to fall by as much as 20 percent over the next three years -- this after nearly a decade of economic stagnation. And newly announced reform policies include such measures as curtailment of subsidies and stricter enforcement of bankruptcy laws, which are sure to cause severe dislocations in the Hungarian work force.

-- These measures, coupled with price increases and wage freezes, will sharpen social discontent, particularly among workers. They will also accentuate class divisions and further polarize the Hungarian leadership.

-- If, on the other hand, the regime retreats from full implementation of the austerity program, another major rescheduling of Hungary's debt looks inevitable.

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B. CZECHOSLOVAKIA: THE NEXT TEST CASE?

1. Discussion. Despite strong Soviet pressure to revive the lagging economy, the Czechoslovak leadership has temporized with halfway measures like the draft law on enterprises. Serious economic change is unlikely under the present ossified leadership in Prague; but the objective need for reform, along with the demonstration effect of the Soviet reform debate, has heightened the pressure on the Husak regime. Rumors persist that Husak is on his way out.

-- Once the long-awaited succession occurs, change could come quickly. Already opposition figures have been emboldened by Gorbachev's glasnost campaign; changes in the top party leadership could unleash far greater public pressures.

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